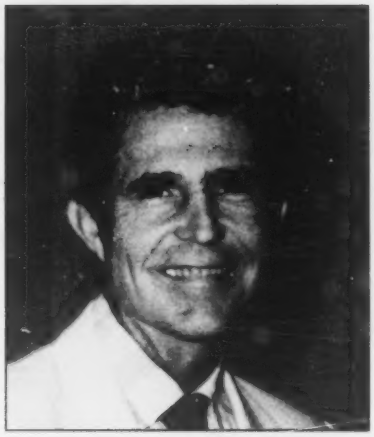
DEPARTMENT OF TAXATION

ANNUAL REPORT 1989-1990

Hawaii District Office staff in front of State Office Building, Hilo.

The Honorable John Waihee
Governor
State of Hawaii



Richard F. Kahle, Jr.
Director of Taxation
State of Hawaii

October 15, 1990

The Honorable John Waihee
Governor, State of Hawaii
Honolulu, Hawaii

Dear Governor Waihee:

This annual report of the Department of Taxation contains the activities for the fiscal year ended June 30, 1990, as well as statistical data on tax collections and distribution of taxes administered by the department.

During the year, a major goal of the department was to promote positive communication between the taxpaying public and the Department of Taxation. To accomplish this goal, the "Hawaii Taxpayers Bill of Rights" and a strategic plan document that outlines the department's goals for the six-year period 1989-1995 were published. In addition, twice as many Tax Information Release notices were prepared compared to the prior year. These publications, as well as an increase in the number of rules adopted, we believe, will improve the department's relationship with the public and enhance the effectiveness of the tax system.

We are pleased that the department's Affirmative Action Plan this year reflects progress in hiring and promoting more individuals of targeted ethnic groups-Caucasian, Hawaiians, part Hawaiians, and Filipinos. Also, more women were promoted into management positions.

I appreciate the hard work of the department employees and I am gratified by their dedication and diligence in performing their duties.

Respectfully submitted,

Richard F. Kahle Jr.

RICHARD F. KAHLE, JR.
Director of Taxation

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THE YEAR IN REVIEW

ADMINISTRATION

The department has been actively engaged in developing more efficient and effective procedures to better serve Hawaii's taxpayers. Towards this end, two important documents were published during the fiscal year.

The "Hawaii Taxpayers Bill of Rights" sets forth 24 rights that a taxpayer has in dealing with the Taxation Department. These rights articulate the existing law or policies that the department already has in place. Awareness of taxpayer rights should help create a more knowledgeable public and lead to improved communication between department and taxpayer.

A second document, the "Department of Taxation Strategic Plan", targets specific areas of concentration for department activity over the six-year period 1989-1995. The five major goals are: 1) improved service to taxpayers; 2) continued professionalization; 3) departmental development; 4) planning; and 5) automation. As presented in this annual report, the department is already taking positive steps to realize these goals.

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are to efficiently process all tax documents, to maintain accurate accounting records, and to provide service to all taxpayers through correspondence, telephone, or personal contact.

With minor exceptions, all tax returns and documents are processed centrally on Oahu. The project to centralize front-end processing was fully implemented in January, 1990. With the addition of neighbor island tax documents, the work load for Oahu front-end processing employees increased by one-third.

Two work shifts and additional overtime were not sufficient to cope with the increased work load. Of the 68,000 pounds of incoming mail received between January to June, 1990, approximately 20,600 pounds were received during the two weeks around the April 20 filing due date. A record 442,556 net income tax refund claims were filed in January to June, 1990. The refundable one-time $125 general income tax credit for qualifying resident taxpayers boosted the 1989 average net income tax refund to $558 in contrast to $346 for 1988.

During the tax season, the staff of the Data Entry Section, supplemented by contracted personnel, maintained two work shifts seven days a week. This proved to be more effective than the 24-hour Monday through Friday schedule maintained in previous years.

The Taxpayer Assistance Program (TAP) continued to assist taxpayers during the tax season. Two half-time temporary employees prepared 3,260 net income tax returns. Four temporary tax clerks and three field auditors assisted in answering telephone inquiries, which totalled 69,310 as compared to 51,307 calls in the same period last year. The telephone assistance program was expanded by the addition of two toll-free telephone lines to the automatic call distribution system.

The Taxpayer Services Branch's educational agenda included participation in the VITA (Volunteer Income Tax Assistance) program of the Internal Revenue Service, development of a tax preparation teaching packet for high school students, and distribution of new general excise, withholding and transient accommodations tax pamphlets.

The License and Clearance Section issued 26,275 general excise/use tax licenses and 785 transient accommodations tax certificates of registration. Of the total licenses and certificates of registration issued, 1,222 were processed at the Department of Business and Economic Development's Business Action Center. The Center provides assistance to a taxpayer interested in starting, expanding, or relocating a business and accepts applications for doing business for direct processing.

Through the collective efforts of the Unemployment Insurance Division of the Department of Labor and Industrial Relations and the Collection Division and Taxpayer Services branch of this department, a one-stop clearance process for taxpayers without delinquent balances or non-filed returns was adopted. A total of 12,694 tax clearance certificates was issued during the year.

AUDIT DIVISION

The primary objective of the Audit Division is to maximize voluntary taxpayer compliance with Hawaii's tax laws. An important part of a self-assessment system of taxation is the correct filing of returns. On returns with errors, approximately 30% of all net income filings, the Audit Division dispatched its exception handling tasks within three weeks from the date of referral.

A total of $21.2 million in assessments of additional taxes was levied on audited businesses. As a result of the increase in multistate businesses, the division conducted several in-state and out-of-state audits of such firms. These audits resulted in substantial assessments. In its taxpayer assistance efforts, the audit teams provided information on the proper filing methods to business taxpayers.

The Audit Division's basic training module was updated and training provided. New modules were developed on desk audits for tax returns examiners as well as on tax law and procedures for clerks.

COLLECTION DIVISION

Statewide, nearly $55.0 million in delinquent taxes was collected. This represents an 18% increase over fiscal year 1989 as well as the division's highest cash collection ever. The growth was generated by an increase in accounts with high balances, the average referral amounting to $1,403, or double the prior year's average. Additionally, the centralization of most document processing functions by the Tax Services and Processing Division has had a positive impact on the delinquent tax collection efforts of the neighbor island district branches.

In the area of uncollectible write-offs, each district branch completed for final approval from the Director's Office the Special Record for Uncollectible Delinquent Taxes on recommended delinquent accounts. All branches were able to incorporate this activity into their normal collection operations.

The non-filer program continued to expand its scope as well as increase its effectiveness. A total of 29,120 possible non-filing taxpayers were contacted and over $11.0 million collected. This represents an increase over fiscal year 1989 of 51% in non-filer contacts and 23% in cash collections.

Extension of the program to the neighbor islands yielded approximately one thousand non-filer accounts in each island district office. Oahu Non-filer Unit personnel were utilized to implement this outside island project and after four months of operation, nearly 50% of the project has been completed and over $203.0 thousand collected.

STAFF OFFICES

Administrative Services Office

Fiscal Office

The Administrative Services Office submitted its supplemental budget for fiscal year 1990-1991 to the 1990 Legislature and the total amount allotted to the department for fiscal year 1990-1991 is $13.7 million. Minimum funding requirements for the implementation of the General Excise/Withholding and Transient Accommodations Tax project was granted for the Audit Division and Tax Services and Processing Division.

Departmental operating expenditures totaled $15.0 million this year. The cost per $100 of tax collected amounted to 56¢ this year compared to 57¢ a year ago.

Personnel Management

The legislature authorized the department 389 positions for the fiscal year. The positions were geographically distributed as follows: Oahu 317; Maui/Molokai 23; Hawaii 35; and Kauai 14.

Personnel transactions/movements within the department included 56 civil service new hires for permanent regular positions, 131 hires for temporary appointments, and 8 retirements. Other transactions included 42 promotions, transfers and reallocations, 27 resignations, and 81 terminations involving temporary positions.

STAFFING PATTERN

(Number of Authorized Permanent Positions)[1]

By Organizations/Operating Programs	1990	1989	1988
Headquarters Administration	66	58	49
Tax Services and Processing Division	104	94	93
Compliance Division [2]	—	—	212
Audit Division	124	123	—
Collection Division	95	96	—
	389	371	354

By Islands		
Oahu	—	317
Maui/Molokai	—	23
Hawaii	—	35
Kauai	—	14
TOTAL	—	389

[1]Does not include: a) temporary clerical support positions utilized during peak periods and special projects, b) temporary student positions during the summer.

[2]Division reorganized resulting in separate Audit and Collection Divisions.

Systems and Procedures Office

During the year, the Systems and Procedures Office continued to commit most of its resources to the redesign of the integrated General Excise/Use/Withholding and Transient Accommodations Tax system. The program specification and programming phases of the project were completed and most of the equipment has been installed. Pending are acceptance testing and implementation of the system.

A Systems and Procedures officer was appointed in February, 1990, and the office will be actively recruiting applicants to fill other vacancies in order to improve the technical support to the staff offices and divisions of the department.

Technical Review Office

The name of the Income Technical Office was changed to Technical Review Office and reflects the updated Organizational Charts and Functional Statements.

For the 1990 legislative session, the office drafted 16 administrative bills, 10 of which were enacted into law. Testimonies were prepared on 256 tax bills and resolutions and responses to 14 legislative requests for information were completed.

More than 1,100 hours of training were provided to departmental personnel which included the 26th Annual Hawaii Tax Institute, 1989 tax form update, administration and application of the Conveyance Tax Law, and current tax law changes .

With respect to tax interpretation and information, the office issued the following:

(1) Number of Governor's letters - 82
(2) Number of Director's letters - 337
(3) Number of letter rulings and general correspondences - 766
(4) Number of Tax Information Releases - 14
(5) Number of Departmental Announcements - 5; and
(6) Number of Rules - 3 (relating to telecommunication apportionment factor, capital goods excise tax credit, and offers in compromise).

In addition to these communications, a "Digest of Tax Measures" for the 1989 legislative session was prepared and issued in August, 1989.

As necessitated by changes enacted by the legislature, the Technical Review Office (through the Forms Control Committee) reviewed 162 tax forms and 27 instructions this year. In addition 15 new forms and 6 new instructions and packets were developed.

Acquisition of the Xerox Ventura Desktop Publisher software enhances the office's ability to create and update camera-ready tax forms and booklets. The N-13 instruction booklet was computerized and the booklets for tax forms N-12 and N-15 are scheduled to be automated shortly. Computerization of all state tax forms and booklets will be phased in over the next two fiscal periods.

A total of 146 new applications by nonprofit organizations seeking exemption from the incidence of the general excise tax was received and approved. Act 6, S.L.H. 1989, replaced the annual $1 registration fee with a one-time $20 registration fee and the Technical Review Office processed 1,451 one-time registration fee applications.

Effective November 13, 1989, the office was given the responsibility to review and approve/disapprove conveyance tax exemptions. This additional function resulted in a substantial increase in walk-in traffic (4,106) and in telephone calls (4,539). For the period November, 1989, through the close of the fiscal year, 8,419 conveyance tax exemptions were approved.

Tax Research and Planning Office

The Tax Research and Planning Office publishes individual net income and tax credit reports on an annual basis and the business report on a biannual basis. In September, 1989, the report on "Tax Credits Claimed by Hawaii Residents" was distributed, showing the incidence of tax credit claims for the 1987 income tax year. Tax credit claims increased from $22.5 million in 1986 to $58.3 million in 1987, primarily as a result of the introduction of a new food tax credit. This credit became available in 1987 to Hawaii residents who physically resided in the state for at least nine months. Nearly 80% of resident taxpayers claimed the food tax credit, amounting to $35.1 million.

"Hawaii Income Patterns-Individuals" for tax year 1987 was published in November, 1989. Hawaii adopted major provisions of the federal Tax Reform Act of 1986 and conformity to the federal code was reflected in the report's statistics. Major changes in Hawaii's net income tax law included a reduction in rates and tax brackets, a return to higher standard deduction amounts, and changes in the capital gains tax. The study noted substantial increases of nearly 14% in reported salaries and wages and 9% in the number of tax returns filed, totaling 492,382.

This office continues to provide administrative and technical support to the Council on Revenues. In September, 1989, the Council forecast a 2% decline in general fund tax revenues for fiscal year 1990, which was later revised to -0.6%. Actual collections amounted to $2,136 million, an increase of 1% over the prior fiscal year. The Council also estimated a 10.5% increase in the 1989 Hawaii state total personal income. Actual results reflected a 10.7% gain.

During the year, the Tax Research & Planning staff provided support to the Tax Review Commission, which reported its findings to the 1990 Legislature.

For the 1990 legislative session, this office reviewed more than 225 tax measures in order to determine the revenue impact for each measure. A brief summary of the major tax measures enacted is presented under "Legislation".

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation	Richard F. Kahle, Jr.
Deputy Director of Taxation	Gary S. Mijo
Deputy Director of Taxation	Joyce T. Omine

STAFF OFFICES

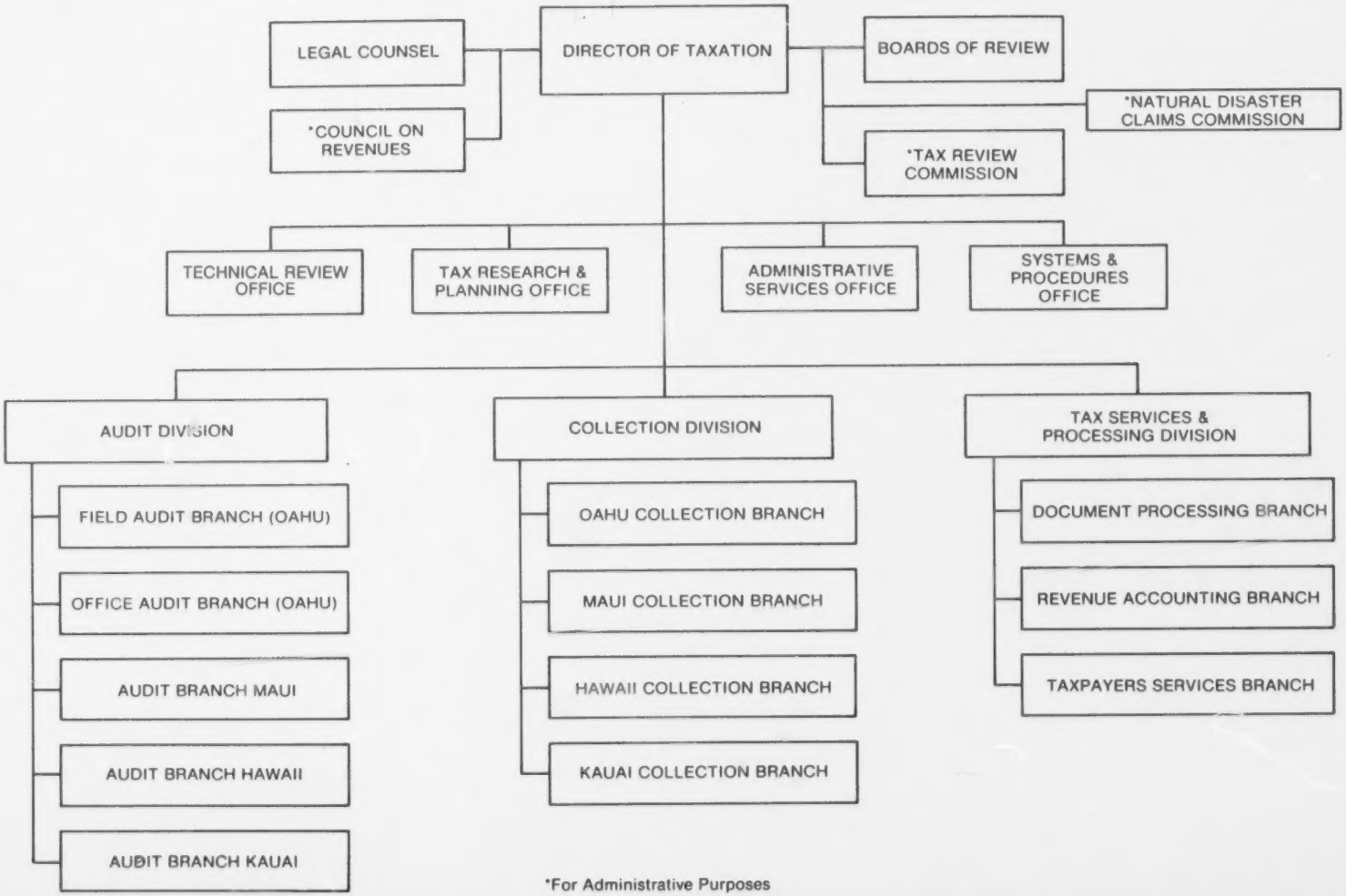
Income Tax Program Officer	Ronald Choy
Tax Research and Planning Officer	Robert Koike
Systems and Procedures Officer	Norman Yoshikami
Administrative Services Officer	Warren Higashi

OPERATIONS STAFF

Audit Division Chief	Richard Chiogioji
1st Taxation District (Oahu)	
Field Audit Branch	Takeo Tanouye
Office Audit Branch	Ronald Randall
2nd Taxation District (Maui)	Janis Shinyama
3rd Taxation District (Hawaii)	Ronald Yabe
4th Taxation District (Kauai)	Ernest Balderas
Collection Division Chief	Wayne Kinoshita
1st Taxation District (Oahu)	Ronald Watanabe
2nd Taxation District (Maui)	Stanley Ching
3rd Taxation District (Hawaii)	Wendell Serrao
4th Taxation District (Kauai)	Helen Teraoka
Tax Services and Processing Division Chief	Marie Okamura
Taxpayer Services Branch	June Yamamoto
Document Processing Branch	Richard Yokota
Revenue Accounting Branch	Jerry Ebesu

ORGANIZATION CHART

Department of Taxation
State of Hawaii

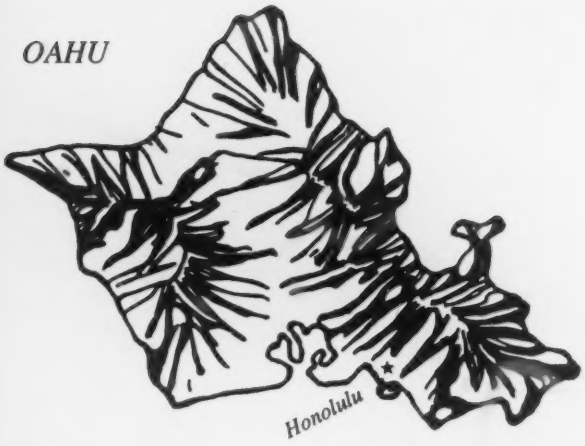


*For Administrative Purposes

FIRST TAXATION DISTRICT

Island of Oahu

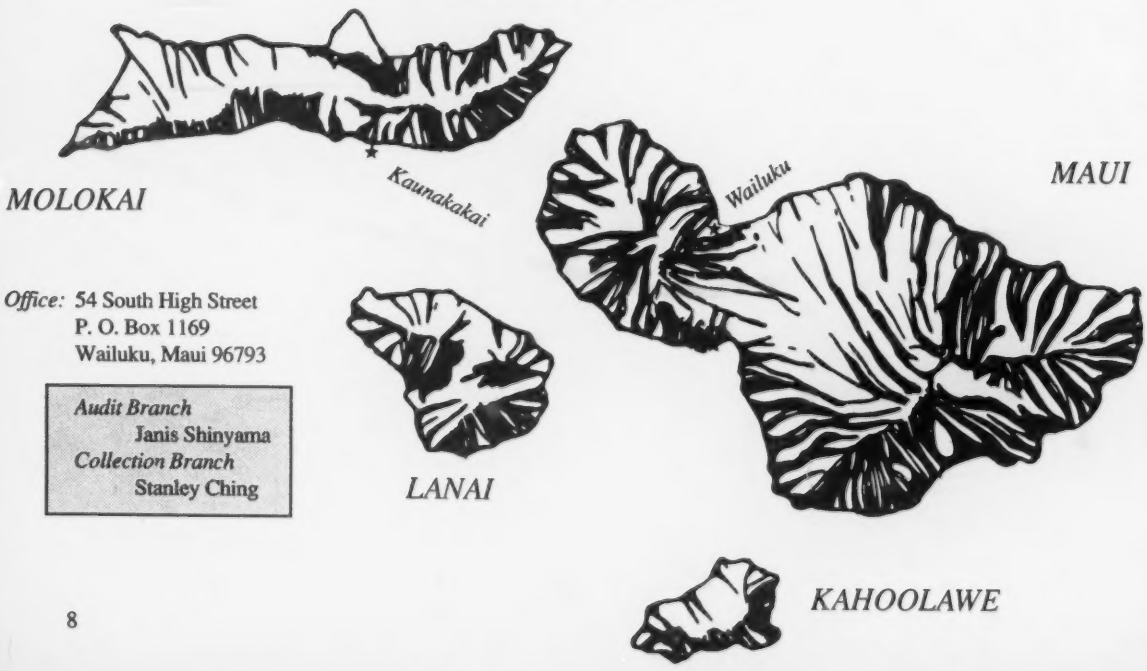
Office: 830 Punchbowl Street
P. O. Box 259
Honolulu, Hawaii 96809



Audit Division Chief
Richard Chiogioji
Office Audit Branch
Ronald Randall
Field Audit Branch
Takeo Tanouye
Collection Division Chief
Wayne Kinoshita
Collection Branch
Ronald Watanabe
Tax Services & Processing Division Chief
Marie Okamura
Taxpayer Services Branch
June Yamamoto
Document Processing Branch
Richard Yokota
Revenue Accounting Branch
Jerry Ebesu

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai

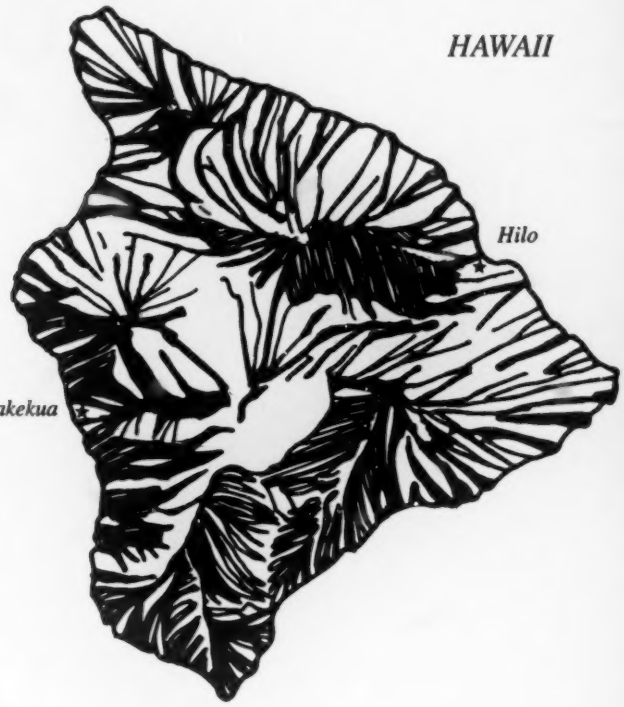


Office: 54 South High Street
P. O. Box 1169
Wailuku, Maui 96793

Audit Branch
Janis Shinyama
Collection Branch
Stanley Ching

THIRD TAXATION DISTRICT

Island of Hawaii

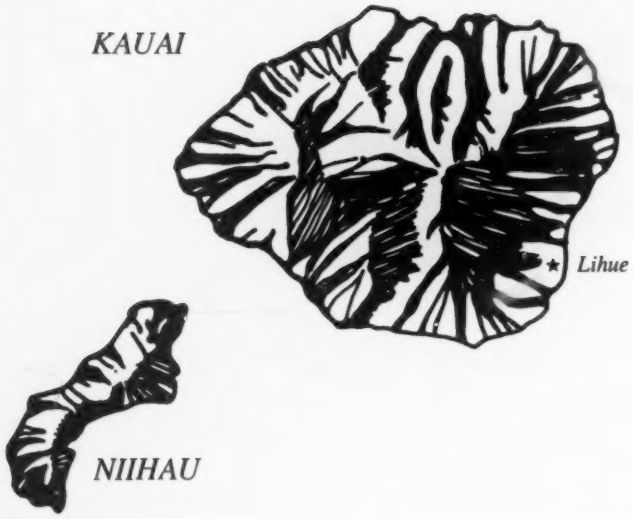


Office: 75 Aupuni Street
P. O. Box 1377
Hilo, Hawaii 96721

Audit Branch
Ronald Yabe
Collection Branch
Wendell Serrao

FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau



Office: 3060 Eiwa Street
P.O. Box 1689
Lihue, Kauai 96766

Audit Branch
Ernest Balderas
Collection Branch
Helen Teraoka

TAX APPEALS AND LITIGATION

BOARDS OF REVIEW

The Boards of Review, consisting of five members for each taxation district, informally hear tax appeal disputes that cannot be resolved with the tax branch within the respective district. A summary of the appeals before each district board during fiscal year 1989-1990 is as follows:

	Oahu	Maui	Hawaii	Kauai
Appeals Pending at Start of Fiscal Year	39	15	11	—
New Appeals Filed	14	7	10	—
Appeals Settled	15	20	13	—
Appeals Pending at End of Fiscal Year	38	2	8	—

Of the 48 appeal cases settled during the fiscal year, 30 were in favor of the state, 8 in favor of the taxpayer, 3 split decisions, and 7 were withdrawn either by the taxpayer or the state. The total amount of tax liability on appeal was $492,837.

COURT CASES AND LEGAL ACTIONS

During fiscal 1989-1990, the department's legal counsel closed the following cases:

Mortgage Foreclosures	71
Bankruptcies	38
Appeals	11
Opinions	54
Other	93

The following cases were settled:

1. George M. Akiyoshi, T.A. No. 2671
2. Gary Altman, T.A. No. 2138
3. Joseph J.Y., Jr. and Marilyn I.M. Doughty, T.A. No. 2672
4. Richard and Anajean McGill, T.A. No. 2727
5. Sukarman Sukamto, T.A. No. 2718

Summarized below are three decisions rendered by the Tax Appeal Court:

Clarence O. and Lona Furuya, T.A. No. 2596:
Court held that H.R.S. 235-101 (b), which provides a one-year limitation period to conform state tax returns to reflect IRS changes, does not extend or reopen the 40-month period for carrying back net operating losses.

Gentry-Pacific, Ltd., T.A. No. 2669:
Court found that a corporate partner's conveyance of real property to a partnership (composed of the corporate partner and its sole shareholder) in exchange for a partnership interest is subject to the conveyance tax.

MTL Inc., T.A. Nos. 2486 and 2497:
Court held MTL exempt from the general excise tax on the ground that MTL is a city instrumentality.

LEGISLATION

The 1990 Legislature passed Act 15, which, with certain exceptions, incorporates the Internal Revenue Code as of December 31, 1989. Besides the conformity bill, 23 other tax measures were enacted into law. The following briefly describes the major acts:

Act No.	Tax Law and Brief Description
16	Net Income Tax: Incorporates the Model S Corporation State Income Act into Hawaii's net income tax law. Effective January 1, 1990.
17	Net Income Tax: Allows duly licensed out-of- state physicians or commissioned medical officers in the U.S. military service to certify a person's total disability. Effective April 17, 1990.
98	Net Income Tax: Allows a resident individual who has no income, or no income taxable under Chapter 235, HRS, to qualify for the renter's tax credit. Effective January 1, 1990.
184	General Excise/Use Tax: Establishes a county funding plan for mass transit and infrastructure needs; allows the counties to impose a 1/2% excise tax; and provides a county excise tax credit. Effective June 19, 1990.
185	Transient Accommodations Tax: Provides revenue sharing with counties by a specified percentage and amends the definition of "gross rental" and "gross rental proceeds". Effective July 1, 1990.
186	Net Income Tax: Creates a general income tax credit of $60 for each qualified exemption. Effective June 19, 1990.
187	Net Income Tax: Repeals the general excise tax credit by creating a permanent food/ excise credit and increases the food tax credit to $55. Effective January 1, 1990.
213	Net Income Tax: Provides that sales of real property by nonresidents are subject to 9% withholding of sales price and allows credit for taxes paid on the non-residents' income tax return. Effective January 1, 1991.
289	Net Income Tax: Establishes a tax credit for the hiring of disabled persons. Effective January 1, 1990.
297	General Excise/Use Tax: Provides relief to General Motors dealers for their duplication of use tax payments. Effective June 6, 1990; repealed on December 31, 1993.
319	Net Income Tax: Promotes energy conservation and increases energy tax credits. Effective January 1, 1990.
320	Administration of Taxes: Opens offers-in-compromise to public disclosure, thus conforming with the federal law. Effective July 6, 1990.
340	Net Income Tax: Increases military reservist exclusions of income from $500 to $1,750. Effective January 1, 1990.

INCOME ASSESSMENT AND AUDIT

INDIVIDUAL INCOME TAX

Gross individual income tax collections rose 7.8% during fiscal 1990. Reflecting Hawaii's high employment climate, withholding taxes on wages, the largest component of the individual income tax, advanced 11.4%.

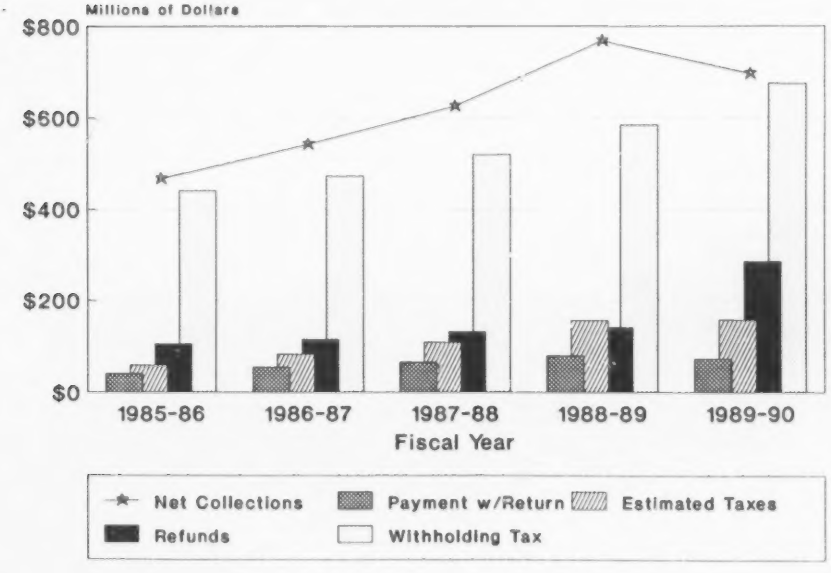
TAXES PAID BY INDIVIDUALS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1990	FY 1989	1989-90	1986-90
Declaration of Estimated Taxes	$156,058	$155,078	0.6	25.2
Payment with Return	72,009	79,142	-9.0	13.0
Withholding Tax on Wages	750,639	673,736	11.4	11.3
SUBTOTAL	$978,706	$907,956	7.8	12.9
Refunds	283,609	140,367	102.0	26.3
NET	$695,097	$767,589	-9.4	10.7

NOTE: Due to rounding, details may not add to total.

Despite the increase in gross collections, net individual income tax collections after refunds fell 9.4% as a result of a sharp increase in the amount of total refunds, which more than doubled. The primary reason for this rise in refunds was the change in the size of the general income tax credit from $1 to $125 per qualified resident. During the January to June tax season in 1990, the average refund per return was $558 as compared to $346 for the corresponding period in 1989.

Components of the Individual Income Tax



CORPORATE INCOME TAX

Gross corporate income tax collections rose 10.6% as a $10.2 million rise in declarations of estimated taxes overcame a $1.2 million decline in taxes paid with returns. A sharp rise in refunds limited net corporate income tax collections to a more modest 3.5% increase.

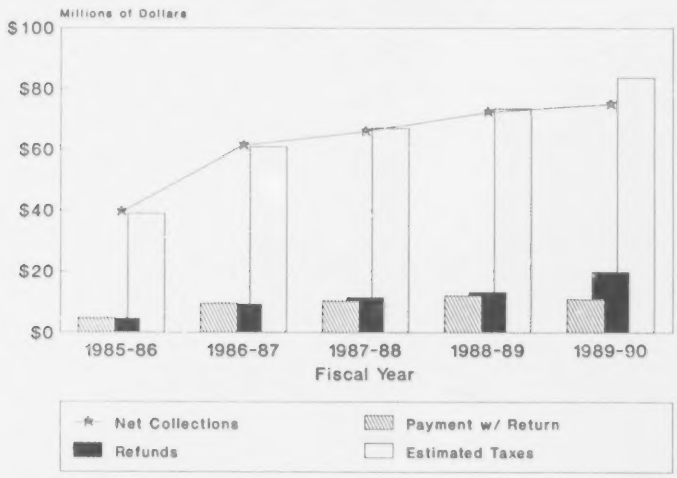
TAXES PAID BY CORPORATIONS
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1990	FY 1989	1989-90	1986-90
Declaration of Estimated Taxes	$83,641	$73,433	13.9	14.6
Payment with Return	10,871	12,054	-9.8	87.0
SUBTOTAL	$94,512	$85,487	10.6	16.7
Refunds	19,654	13,148	49.5	50.4
NET	$74,858	$72,339	3.5	12.8

NOTE: Due to rounding, details may not add to totals.

As the accompanying chart shows, the incremental increases in estimated taxes and refunds for fiscal 1990 represent pronounced expansions when compared to the increases in these two categories of the previous two years.

Corporate Income Tax Components



GENERAL EXCISE AND USE TAXES

Revenue from general excise and use taxes, the state's largest tax revenue source, advanced by 14.8% in fiscal 1990, increasing its share of total state tax collections to 48% as compared to 45% for fiscal 1989. Taxes on retailing provided 41.5% of the tax revenue from this source. Activities taxed at the 4% rate accounted for nearly nine-tenths of general excise and use tax revenues and seven-tenths of the tax base.

Every activity category except sugar processing and insurance commissions experienced revenue increases. Revenue from insurance commissions underwent a modest 5.4% decline, while revenue from sugar processing fell a sharp 33.7% as a result of a diminishing tax base. Act 173 of the 1988 legislature allowed sugar companies to claim an exemption for the exports of agricultural cooperatives. Between 1988 and 1990, the tax base for sugar processing fell dramatically from $348 million to $27 million.

GENERAL EXCISE AND USE TAX BASE AND TAXES FOR THE FISCAL YEARS ENDING JUNE 30, 1990 AND 1989

(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	1990	1989	% Change
TAX BASE				
Retailing		$12,221,078	$10,950,145	11.6
Services		3,983,590	3,519,226	13.2
Contracting		3,506,659	2,753,906	27.3
Hotel Rentals		1,548,264	1,440,193	7.5
All Other Rentals		2,711,627	2,451,201	10.6
All Others (4%)		2,426,635	2,207,745	9.9
Subtotal		$26,397,853	$23,322,416	13.2
Sugar Processing		$ 27,291	$ 41,016	-33.5
Pineapple Canning		13,283	2,952	350.0
Producing		324,346	312,069	3.9
Manufacturing		673,879	635,366	6.1
Wholesaling		7,053,500	6,093,885	15.7
Use (1/2%)		3,208,376	2,729,747	17.5
Intermediary Services		258,354	183,820	40.5
Insurance Commissions		174,974	184,364	-5.1
Subtotal		$11,734,003	$10,183,219	15.2
TOTAL-ALL ACTIVITIES		$38,131,856	$33,505,635	13.8
TAX				
Retailing	4%	$ 488,843	$ 438,006	11.6
Services	4%	159,344	140,769	13.2
Contracting	4%	140,266	110,156	27.3
Hotel Rentals	4%	61,931	57,608	7.5
All Other Rentals	4%	108,465	98,048	10.6
All Others	4%	97,065	88,310	9.9
Subtotal		$ 1,055,914	$ 932,897	13.2
Sugar Processing	.50%	$ 136	$ 205	-33.7
Pineapple Canning	.50%	66	15	340.0
Producing	.50%	1,622	1,560	4.0
Manufacturing	.50%	3,369	3,177	6.0
Wholesaling	.50%	35,268	30,469	15.8
Use	.50%	16,042	13,649	17.5
Intermediary Services	.50%	1,292	919	40.6
Insurance Commissions	.15%	262	277	-5.4
Subtotal		$ 58,057	$ 50,271	15.5
Unallocated*		62,716	41,811	
TOTAL-ALL ACTIVITIES		$ 1,176,687	$ 1,024,979	14.8

NOTE: Due to rounding, details may not add to totals.

*The unallocated net collections category includes amounts resulting from collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments and settlements, etc.

TRANSIENT ACCOMMODATIONS TAX

Transient accommodations tax collections increased by 8.5% despite a hotel strike, indicating that the tourist industry experienced continued growth during fiscal 1990. Revenue from transient accommodations registration fees increased fivefold as a new fee structure became effective on January 1, 1990. Under the new structure, operators with up to five units must pay a one-time fee of $5. Those with six or more units must pay a one-time fee of $15. Under the old fee structure, every operator paid an annual fee of $1.

TRANSIENT ACCOMMODATIONS TAX

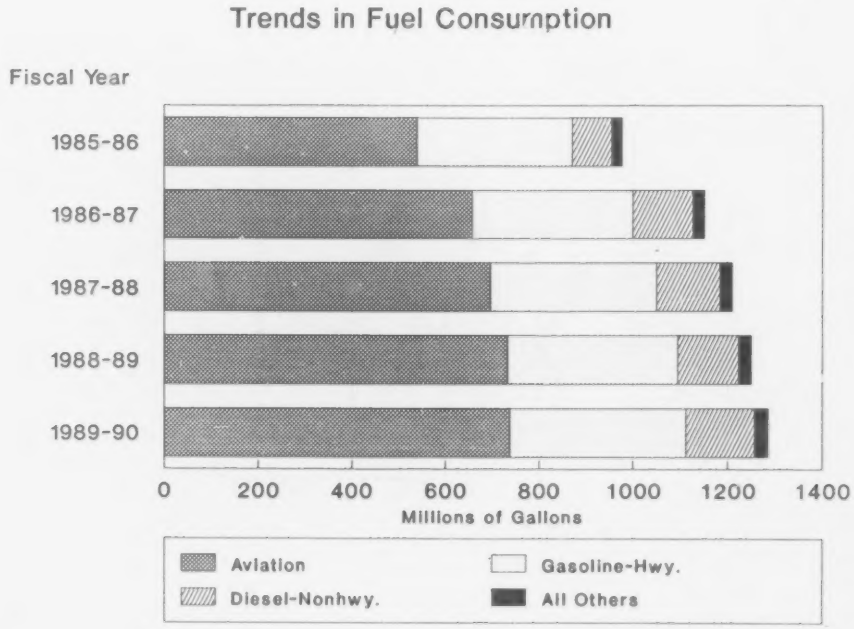
(In Thousands of Dollars)

	FY 1990	FY 1989	Difference
Transient Accommodations Tax	$82,438	$75,973	$6,465
Transient Accommodations Fee	50	10	40
TOTAL	$82,488	$75,983	$6,505

NOTE: Due to rounding, details may not add to totals.

FUEL TAXES

Statewide fuel consumption rose by 34.5 million gallons, which represented a fairly moderate increase of 2.8%. By volume, aviation fuel embodied over half and gasoline over a quarter of the gallonage consumed.



GALLONS OF FUEL CONSUMED

(In Thousands of Gallons)

	FY 1990	FY 1989	Av. Annual Change (Percent) 1989-90	1986-90
Gasoline	373,617	361,848	3.3	2.8
Diesel Oil - Nonhighway	144,906	128,424	12.8	12.1
Diesel Oil - Highway	24,604	22,241	10.6	6.6
Liq. Pet. Gas - Off Highway	3,193	4,264	-25.1	5.6
Liq. Pet. Gas - Highway	882	1,013	-12.9	-1.3
Small Boats - Gasoline	78	52	50.0	-6.8
Small Boats - Diesel Oil	653	806	-19.0	25.4
Aviation Fuel	738,116	732,866	0.7	7.1
TOTAL	1,286,049	1,251,514	2.8	6.1

NOTE: Due to rounding, details may not add to totals.

Fuel taxes are collected by the state but are revenue sources for both the state and the various counties. State fuel tax rates are set by the state legislature while the county councils set the county rates. These rates are summarized in the accompanying table.

FUEL TAX RATES PER GALLON*

	State	County	Total
GASOLINE AND DIESEL OIL (HWY. USE):			
City & County of Honolulu	11.0¢	16.5¢**	27.5¢
County of Maui	11.0¢	9.0¢**	20.0¢
County of Hawaii	11.0¢	8.8¢	19.8¢
County of Kauai	11.0¢	10.0¢**	21.0¢
LIQUID PETROLEUM GAS (HWY. USE):			
City & County of Honolulu	7.0¢	11.0¢**	18.0¢
County of Maui	7.0¢	6.0¢**	13.0¢
County of Hawaii	7.0¢	6.0¢	13.0¢
County of Kauai	7.0¢	7.0¢**	14.0¢

*Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed by the state at one cent per gallon.
**Effective July 1, 1989.

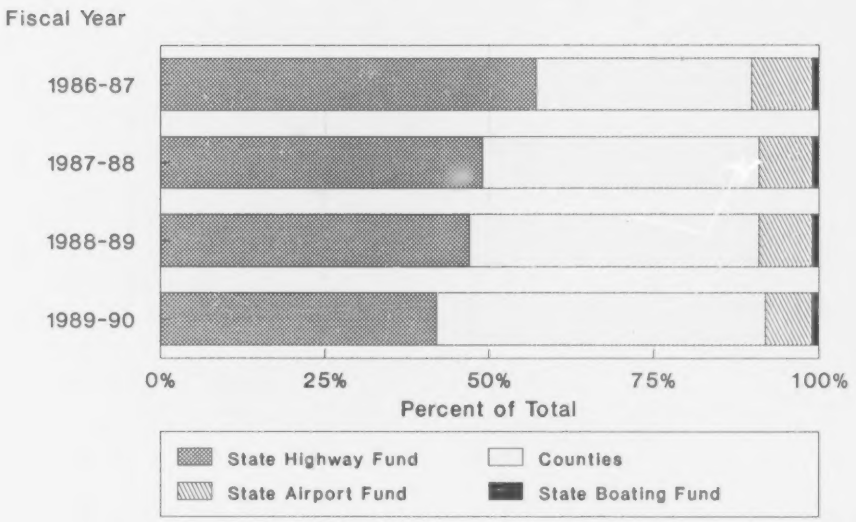
On July 1, 1989, three counties raised their fuel tax rates. In the City and County of Honolulu, the rate on gasoline and diesel oil for highway use increased from 11.5 cents to 16.5 cents per gallon, while the rate on liquid petroleum gas for highway use rose from 8 cents to 11 cents per gallon. Maui County increased the fuel tax on gasoline, diesel oil, and liquid petroleum gas for highway use by 1 cent per gallon. Kauai's fuel tax rates on fuels used on highways rose by 4 cents per gallon for liquid petroleum gas and 2 cents per gallon for gasoline and diesel oil.

These rate increases elevated county fuel tax revenues 35.5% to $54.0 million. Since state fuel tax rates did not change, state fuel tax revenue accruing to the state highway fund increased only 4.0% to $44.8 million. As a result, county fuel taxes accounted for 50% of fiscal 1990 fuel taxes compared to 44% in fiscal 1989.

Revenue from the state tax on aviation fuel, $7.4 million in fiscal 1990, goes into the state airport fund. Other state fuel tax revenues accrue to the state highway fund, with a portion allocated to the state boating fund.

Besides fuel taxes, the state highway fund also accrues revenue from the state motor vehicle weight tax and accompanying registration fees. The weight tax and fees are administered and collected by the counties and transferred to the state. Revenue from this source increased 4.6% to $20.3 million.

Distribution of Fuel Tax Collections by Type of Fund



ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY 1990	FY 1989	Difference
STATE HIGHWAY FUND:			
Gasoline	$40,600	$39,261	$ 1,339
Diesel Oil - Nonhighway	1,441	1,279	162
Diesel Oil - Highway	2,684	2,427	257
Liq. Pet. Gas - Off Highway	32	42	(10)
Liq. Pet. Gas - Highway	61	70	(9)
Subtotal	$44,818	$43,079	$ 1,739
Motor Vehicle Weight Tax/Reg. Fees	20,274	19,387	887
TOTAL	$65,091	$62,466	$ 2,625
COUNTY HIGHWAY FUNDS:			
City & County of Honolulu	$42,364	$30,027	$12,337
County of Maui	4,138	3,487	651
County of Hawaii	5,213	4,543	670
County of Kauai	2,242	1,779	463
TOTAL	$53,956	$39,836	$14,120
BOATING SPECIAL FUND	$ 998	$ 838	$ 160
STATE AIRPORT FUND:			
Aviation Fuel	$ 7,381	$ 7,329	$ 52

NOTE: Due to rounding, details may not add to totals.

PUBLIC SERVICE COMPANY TAXES

Public service company tax revenue totaled $69.7 million in fiscal 1990, with $57.0 million coming from public utilities, $12.3 million from motor and contract carriers, and $0.4 million from penalties and interest. Total revenue was $4.8 million greater than the total for fiscal 1989.

PUBLIC SERVICE COMPANY TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1990	FY 1989	1989-90	1986-90
Public Service Company Taxes	$69,275	$64,632	7.2	2.6
Penalty & Interest	375	213	76.1	19.9
TOTAL	$69,650	$64,845	7.4	2.6

NOTE: Due to rounding, details may not add to totals.

INHERITANCE AND ESTATE TAXES

Estates of persons who died before June 30, 1983, are subject to the inheritance tax. For decedents after that date, a Hawaii estate tax is imposed only if the estate is subject to the federal estate tax.

A total of 1,870 estates were settled during the year, of which 238 were taxable. Total revenue amounted to $16.3 million, which was more than twice as much as the $6.7 million collected the previous year.

INHERITANCE AND ESTATE TAXES
(In Thousands of Dollars)

			Av. Annual Change (Percent)	
	FY 1990	FY 1989	1989-90	1986-90
Inheritance Tax	$10,435	$2,694	287.3	42.1
Estate Tax	5,820	3,819	52.4	26.4
Subtotal	$16,255	$6,513	149.6	23.2
Penalty & Interest	75	163	-54.3	6.3
TOTAL	$16,329	$6,676	144.6	22.5

NOTE: Due to rounding, details may not add to totals.

OTHER TAXES

Changes in revenue in tax categories not covered in previous sections are summarized in the accompanying table. Conveyance tax revenue increased 56%, an indicator of increased education of taxpayers by the Department and the increase in value of real estate that changed hands during the year. Revenue from general excise licenses and fees increased more than sevenfold as a new fee structure went into effect on January 1, 1990. Under this new structure, a one-time $20 license fee replaces the former annual fees.

MISCELLANEOUS TAXES
(In Thousands of Dollars)

	FY 1990	FY 1989	Av. Annual Change (Percent) 1989-90	1986-90
Banks & Other Financial Corp.	$ 19,893	$ 15,761	26.2	54.5
Conveyance	8,077	5,183	55.8	37.1
Empl. Security Contributions	78,942	53,120	48.6	6.0
Insurance Premiums	36,892	33,414	10.4	5.7
Liquor & Permits	40,336	38,609	4.5	15.3
Tobacco & Licenses	23,496	24,413	-3.8	3.8
General Excise Licenses & Fees	3,363	456	637.5	130.3
TOTAL	$210,999	$170,956	23.4	8.6

NOTE: Due to rounding, details may not add to totals.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Net tax collections by the Department of Taxation amounted to $2,388.3 million, an increase of 6.8% over the previous fiscal year's total of $2,235.9 million. These totals include fuel taxes collected by the department for the counties and employment security contributions collected for the Department of Labor and Industrial Relations. The following table summarizes these collections by taxation district.

DEPARTMENT OF TAXATION COLLECTIONS
(In Thousands of Dollars)

	FY 1990	FY 1989	Av. Annual Change (Percent) 1989-90	1986-90
OAHU				
Gross Collections*	$2,322,968	$2,059,364	12.8	11.9
Less Appeals, Payments Under Protest, Refunds, TDI	247,575	136,750	81.0	20.7
Net Collections by Department	$2,075,393	$1,922,614	7.9	11.3
MAUI				
Gross Collections*	$ 162,598	$ 151,173	7.6	12.1
Less Appeals, Payments Under Protest, Refunds, TDI	26,589	13,267	100.4	27.9
Net Collections by Department	$ 136,009	$ 137,906	-1.4	10.9
HAWAII				
Gross Collections*	$ 153,520	$ 135,510	13.3	11.6
Less Appeals, Payments Under Protest, Refunds, TDI	29,625	15,086	96.4	27.7
Net Collections by Department	$ 123,895	$ 120,424	2.9	9.8
KAUAI				
Gross Collections*	$ 66,156	$ 61,491	7.6	14.8
Less Appeals, Payments Under Protest, Refunds, TDI	13,152	6,536	101.2	26.6
Net Collections by Department	$ 53,004	$ 54,955	-3.5	13.7

*Excludes conveyance, insurance premiums, and motor vehicle weight taxes.

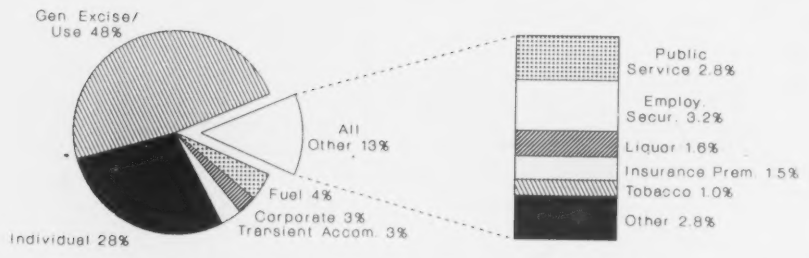
Besides revenue collected by the Department of Taxation, state tax collections included $8.1 million in conveyance tax revenue collected by the Department of Land and Natural Resources, $36.9 million in insurance premium taxes collected by the Department of Commerce and Consumer Affairs, and $20.3 million in motor vehicle weight taxes and registration fees collected by the counties. Including these amounts, tax collections totaled $2,453.5 million as summarized in the following table.

TAX COLLECTIONS

SOURCE OF REVENUE	FY 1990 Amount Collected	FY 1990 % of Total	FY 1989 Amount Collected	FY 1989 % of Total
Banks - Financial Corps	$ 19,892,928	0.81	$ 15,760,558	0.69
Conveyance	8,077,453	0.33	5,182,639	0.23
Employment Security Contributions	78,942,003	3.22	53,120,216	2.32
Fuel	107,152,554	4.37	91,083,029	3.97
General Excise & Use	1,176,687,496	47.96	1,024,978,318	44.68
Income - Corporations	74,857,814	3.05	72,338,627	3.15
Income - Individuals	695,097,653	28.33	767,588,804	33.46
Inheritance and Estate	16,329,172	0.67	6,675,308	0.29
Insurance Premiums	36,891,919	1.50	33,413,502	1.46
Liquor & Permits	40,336,230	1.64	38,609,363	1.68
Motor Vehicle Weight/ Registration Fees	20,273,799	0.83	19,386,788	0.85
Public Service Companies	69,649,700	2.84	64,845,727	2.83
Real Property	0	0.00	0	0.00
Tobacco & Licenses	23,495,785	0.96	24,412,843	1.06
Trans. Accom. Fees	50,057	0.00	9,811	0.00
Trans. Accom. Tax	82,437,889	3.36	75,972,924	3.31
All Others	3,371,383	0.14	503,840	0.02
TOTAL	$2,453,543,835	100.00	$2,293,882,297	100.00

Tax Composition

Fiscal Year 1989-90



Source of Revenue — All Other

During fiscal 1990, 87% of total state tax collections went into the state general fund, to which accrues all revenue not specifically reserved for state special funds or county funds. Based on county fuel tax rates, $54.0 million in fuel tax revenue was transferred to the counties.

A total of $263.5 million, representing 10.7% of state tax collections, was distributed to state special funds, as summarized in the accompanying table. Two new special funds received monies for the first time during fiscal 1990. The Educational Facilities Improvement Special Fund, which was authorized by Act 368 of the 1989 legislature for capital improvements and repairs of public school facilities, received $90 million in general excise tax revenue. Authorized by Act 163 of the 1990 legislature, the Bond Reserve Fund received $5 million in general excise tax revenue for debt service of compound interest general obligation bonds.

Three special funds - the state highway fund, the boating special fund, and the state airport fund - were the beneficiaries of the state's share of fuel tax collections. Taxes on aviation fuel, $7.4 million in fiscal 1990, went to the airport fund. The state highway fund received $44.8 million of the state's share of fuel tax revenue as well as the $20.3 million in motor vehicle weight taxes and registration fees collected by the counties on behalf of the state. In addition, the state highway fund received $15.6 million in general excise tax revenue as required by Act 239 of the 1985 legislature.

Checkoffs by taxpayers on their tax returns yielded $457 thousand for the state election campaign fund. Employment security contributions totaling $78.9 million went into the unemployment trust fund administered by the Department of Labor and Industrial Relations.

DISTRIBUTION OF COLLECTIONS

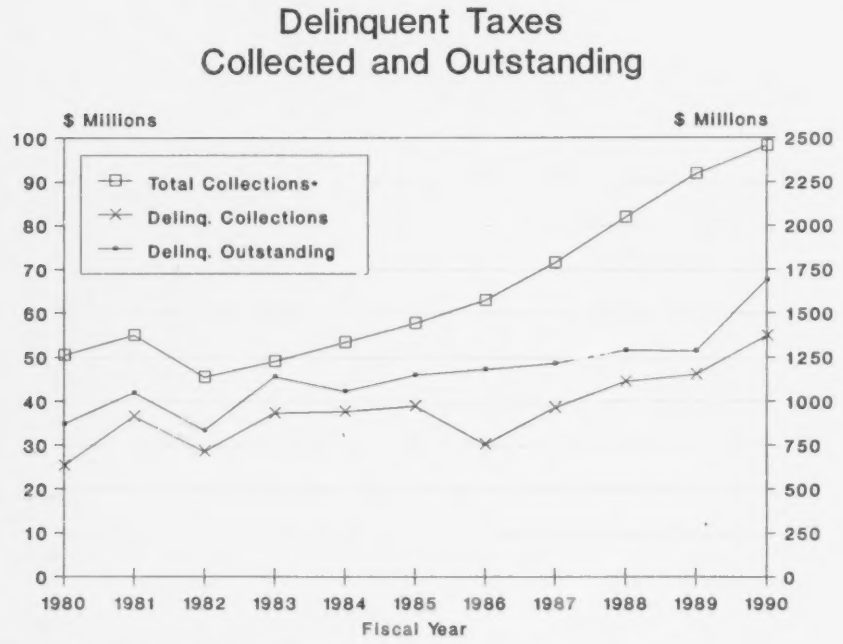
	FY 1990		FY 1989	
	Amount Collected	% of Total	Amount Collected	% of Total
STATE FUNDS:				
State General	$2,136,137,048	87.06	$2,115,854,239	92.24
State Highway	65,091,343	2.65	62,466,701	2.72
State Highway (Act 239, S.L.H. 1985)	15,581,047	0.64	14,103,011	0.61
State Airport	7,381,161	0.30	7,328,656	0.32
Boating Special Fund	997,714	0.04	837,544	0.04
Bond Reserve Fund	5,000,000	0.20	0	0.00
Educ. Facil. Improv. Fund	90,000,000	3.67	0	0.00
Unemployment Trust	78,942,003	3.22	53,120,216	2.32
Election Campaign Fund	457,384	0.02	335,014	0.01
SUBTOTAL - STATE	$2,399,587,700	97.80	$2,254,045,381	98.26
COUNTY REVENUES:				
Property	$ 0	0.00	$ 0	0.00
Fuel	53,956,135	2.20	39,836,916	1.74
SUBTOTAL - COUNTIES	$ 53,956,135	2.20	$ 39,836,916	1.74
TOTAL	$2,453,543,835	100.00	$2,293,882,297	100.00

NOTE: Due to rounding, details may not add to totals.

DELINQUENT TAXES

At the beginning of fiscal 1990, 31,073 delinquent accounts representing $51.4 million in taxes were carried over from the previous year. During the year, 52,239 new accounts representing $73.3 million in taxes were added while 53,155 accounts yielding $57.2 million in gross collections were closed. After deducting $2.3 million for uncollectible accounts, the year's net collections totaled $54.9 million. At the end of fiscal 1990, 30,157 accounts representing taxes of $67.5 million were pending.

Although the Collection Division closed 3,377 fewer accounts than during the prior year, a decrease of 6%, net collections rose 19% as a result of an increase in the average net collection per account from $816 in fiscal 1989 to $1,033 in fiscal 1990.



•Use right scale for total collections

STATE GENERAL FUND

GENERAL EXCISE TAX: The general excise tax is a tax on the privilege of doing business in the state as measured by the gross proceeds of business transactions. Hawaii is one of the few states having a gross receipts tax. This tax applies, with few exceptions, to all levels of business activities, including not only the consumer level, but also the producing, manufacturing, and wholesaling activities. The significant difference between Hawaii's general excise tax as compared to a sales tax is that the incidence of the tax is on the seller rather than on the purchaser. This tax applies to receipts from the sale of tangible personal property, services performed, and income from the investment of business capital, in such forms as interest, rentals, royalties, fees, etc.

The consumer level rate is 4% with the rate on producing, manufacturing, and wholesaling at 1/2 of 1%. Insurance solicitors and agents have a rate of 0.15%.

USE TAX: Under the use tax law, an excise tax is levied on the import or purchase of tangible personal property from an unlicensed seller for use or for resale at retail in the state. If the import is for resale, it carries the wholesaling rate of 1/2 of 1%; otherwise the rate is 4%, the same as for retailing.

INCOME TAXES: The Income Tax Law of 1957 adopted, with certain exceptions, the provisions of the Internal Revenue Code in the determination of gross income, adjusted gross income, and taxable income. Some of the significant exceptions applicable under Hawaii's law are: (l) taxation of cost-of-living allowances received by federal employees in Hawaii; (2) exclusion of most pension income; (3) allowance of a $7,000 personal exemption for persons who are blind, deaf, or totally disabled; (4) a deduction of up to $5,000 a year for an individual housing account; and (5) exclusion of the first $500 ($1,750 beginning in tax year 1990) of military reserve or Hawaii national guard pay.

ESTATE AND TRANSFER TAX: Act 217 of the 1983 legislature repealed the Inheritance and Estate Tax and established in its place the Estate and Transfer Tax for persons dying after June 30, 1983. The amount of tax is equal to the federal credit for state death taxes on estates subject to the federal estate tax.

LIQUOR AND TOBACCO TAXES: Hawaii taxes all tobacco products at a rate of 40% of the wholesale value, in contrast to other states which tax cigarettes on the basis of the number in the pack. Act 344 of the 1986 legislature repealed the 20% wholesale tax on liquor and replaced it with a gallonage tax which was to be adjusted every six months. Fiscal 1990 rates per wine gallon were: $5.75 on distilled spirits, $2.00 on sparkling wine, $1.30 on still wine, $0.81 on cooler beverages, $0.89 on beer other than draft, and $0.50 on draft beer. These rates will remain in effect until June 30, 1991, as a result of a moratorium on rate adjustments imposed by Act 149 of the 1989 legislature.

PUBLIC SERVICE COMPANY TAX: This is a tax on public utility business in lieu of general excise and real property taxes. Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers is taxed at 5.35%. The rate on all other public utility gross income is based on the ratio of net to gross income. If this ratio is 15% or less, the rate is 5.885%, increasing by 0.2675% for each 1% increase in ratio of net to gross. The rate of motor carrier and contract carrier business is 4% of gross income.

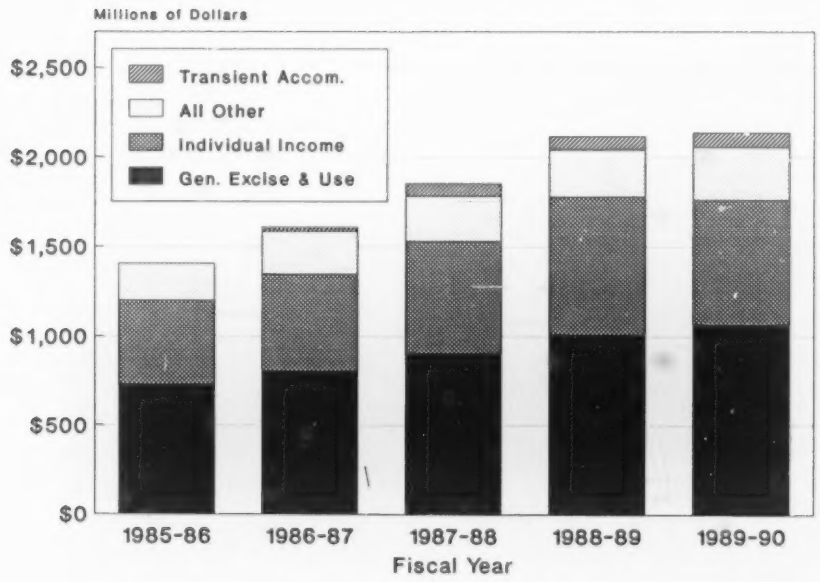
BANKS AND OTHER FINANCIAL INSTITUTIONS: A franchise tax in lieu of all other taxes, except real property, is imposed on both national and state banks, building and loan companies, financial services loan companies, and small business investment companies. The tax rate is 11.7% of taxable income measured by net income for the preceding year.

INSURANCE PREMIUM TAX: This is a tax on insurance companies based on premiums received in Hawaii and is in lieu of all taxes, except real property and taxes on the purchase, use or ownership of tangible personal property. This law is administered and the tax collected by the insurance commissioner, who is required to report to the director of taxation all amounts of taxes collected. The rates are: life insurance — domestic, 1.918% and foreign, 3.197%; surplus lines, 4.68%; ocean marine, 0.8775%; and other insurance — domestic, 2.9647% and foreign, 4.2824%. These rates are applicable to all premiums and gross underwriting profits received during the calendar year.

CONVEYANCE TAX: This tax is imposed, with certain exceptions, on all deeds, leases, subleases, assignments of lease, agreements of sale, instruments, writings, or other documents transferring ownership or interest in any land, tenement or other realty. The rate of tax is 5 cents on each $100 of actual and full consideration paid with a minimum tax of one dollar on each taxable transaction. The purpose of this law is to tax the transfer or lease of real property and to acquire selling price data to determine market value which is needed to achieve uniformity in real property tax assessment.

TRANSIENT ACCOMMODATIONS TAX: This tax is imposed at a rate of 5% on the gross rental proceeds from furnishing accommodations to transients for less than 180 days. Exemptions are granted for health care facilities, school dormitories, nonprofit corporations, military personnel on permanent duty, government- subsidized low-income renters, full-time students, and complimentary accommodations.

Trends in General Fund Revenue



STATE GENERAL FUND

SOURCE OF REVENUE	FY 1990 Amount Collected	FY 1990 % of Total	FY 1989 Amount Collected	FY 1989 % of Total
Banks - Financial Corps.	$ 19,892,928	0.93	$ 15,760,558	0.74
Conveyance	8,077,453	0.38	5,182,639	0.24
General Excise & Use	1,066,106,449	49.91	1,010,875,307	47.78
Income - Corporations	74,857,814	3.50	72,338,627	3.42
Income - Individuals	694,640,269	32.52	767,253,790	36.26
Inheritance & Estate	16,329,172	0.76	6,675,308	0.32
Insurance Premiums	36,891,919	1.73	33,413,502	1.58
Liquor & Licenses	40,336,230	1.89	38,609,363	1.82
Public Service Companies Tax	69,649,700	3.26	64,845,727	3.06
Tobacco & Licenses	23,495,785	1.10	24,412,843	1.15
Trans. Accom. Fees	50,057	0.00	9,811	0.00
Trans. Accom. Tax	82,437,889	3.86	75,972,924	3.59
All Others	3,371,383	0.16	503,839	0.02
TOTAL	$2,136,137,048	100.00	$2,115,854,238	100.00

NOTE: Due to rounding, details may not add to totals.

SPECIAL PURPOSE TAXES

FUEL TAXES: The fuel tax is administered and collected by the state, but it is a source of revenue for both state and county governments. The county tax rates on each gallon of gasoline and diesel oil used on the highways are established by the council of each county. Revenue from fuel taxes goes into state and county special funds for use in construction and maintenance of highways, roads, airports, and boating programs.

The county tax rates on gasoline and diesel oil used on the highways which were in effect at the end of this fiscal year are: 16.5 cents for the City and County of Honolulu, 9 cents for the County of Maui, 8.8 cents for the County of Hawaii, and 10 cents for the County of Kauai. The state rate is 11 cents for all gasoline and diesel oil used on the highways and 1 cent for gasoline, diesel and liquefied petroleum gas used off highways. The aviation fuel tax rate is 1 cent per gallon. To encourage the use of liquefied petroleum gas for antipollution purposes, the fuel tax on liquefied petroleum used on the public highways was reduced to two-thirds of the rates applicable to diesel oil used on the highways for both state and county purposes.

HAWAII EMPLOYMENT SECURITY TAX: The proceeds from this tax go into the unemployment insurance trust fund for the payment of benefits to unemployed workers while they are seeking new jobs. This is a tax on employers and is measured by wages and salaries paid. It is a variable tax of up to 5.4% and is based on the employer's past employment record. This law is administered by the Department of Labor and Industrial Relations, but the tax is payable to the director of taxation.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

A high degree of centralization in Hawaii's tax structure enables the state government to utilize revenue sources in an effective manner. The general excise tax continues to be the major source of the state's general fund tax revenue, followed by the progressive individual income tax.

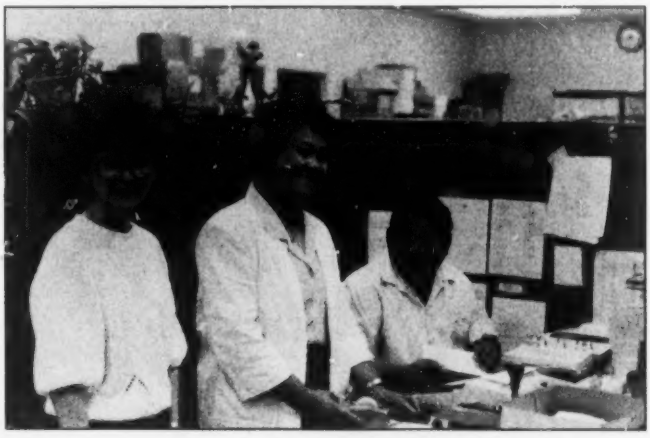
A notable characteristic of the state's tax structure is its use of income tax credits. These credits were conceived to provide relief to taxpayers, especially to those with lower incomes. Other objectives included promotion of energy conservation, relief to working parents, and fostering of public safety. Over the years, some credits were modified to simplify the filing process for taxpayers.

Two tax credits intended for lower-income taxpayers are the excise tax credit and the renter's tax credit which may be claimed by residents with adjusted gross income under $30,000. Whereas the renter's credit is a flat credit based on the number of qualified exemptions, the excise tax credit is inversely graduated against adjusted gross income.

Available to qualified residents of all income levels are the food, dependent care, energy, and child passenger restraint tax credits. Only the child passenger restraint tax credit is also available to nonresidents. Act 187 of the 1990 legislature created a combined food/excise tax credit to replace the food and excise tax credits beginning with the 1990 tax year. One portion of the credit is a flat $55 for each qualified resident. The other portion is an inversely graduated amount based on adjusted gross income.

Article VII, Section 6, of the state constitution mandates the legislature to provide a tax refund or credit whenever general fund year-end balances exceed five percent of general fund revenues for two successive fiscal years. Accordingly, the legislature enacted general income tax credit amounts of $125 per qualified resident for the 1989 tax year and $60 per qualified resident for the 1990 tax year.

Hawaii has sixteen separate tax laws of which thirteen are administered by the state. The remaining three — the motor vehicle weight tax, the public utility franchise tax, and the real property tax — are administered by the counties. Until July 1, 1981, the real property tax law was administered by the state, with the revenue from this source accruing to the counties. At present, the counties administer all of the real property functions. The counties also administer the state and county motor vehicle weight taxes, revenues from which accrue to the state and county highway funds. Revenues from eleven of the state-administered taxes go into the state's general fund and are used to provide the various services of state government, including public education, which is a state function in Hawaii. Although the fuel tax is administered by the state, it is a source of revenue for both state and county governments. The employment security tax is a dedicated tax, used exclusively to provide benefits to unemployed workers.



Ellen Nakamura, Victoria Calica and Clarence Hirai of the Third District's Hilo Office.

OUTLINE OF HAWAII TAX SYSTEM AS OF JULY 1, 1990

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235 — Sec. 235-1 to 235-119	Tax rates for individuals as well as estates and trusts range from 2.0% to 10.0% of taxable income. The allowable standard deduction amounts vary by filing status. The standard deduction amount for married filing joint return or surviving spouse with dependent child is $1,900; single is $1,500; head of household is $1,650; and married filing separately is $950. Tax rates for corporations are 4.4% up to $25,000, 5.4% over $25,000 but not over $100,000, and 6.4% over $100,000.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the fifteenth day of the following calendar month. When the total tax liability is less than $1,000 for the calendar year, returns may be filed quarterly on or before the fifteenth day of the month after the close of each quarter. An annual employer's return and reconciliation of Hawaii income tax withheld Form HW-3 must be filed together with a duplicate copy of each employee's tax statement Form HW-2 on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, April 20th. Estimates of corporations, September 20th.	In general, at time of filing returns. Estimates of individuals one-quarter April 20th; June 20th; September 20th; and January 20th. Corporations one-half September 20th and January 20th.
(2) Estate and Transfer (For decedents dying after 6/30/83) Chapter 236D — Sec. 236D-1 to 236D-18	Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions.	Report (Form M-6) must be filed by person responsible for filing federal Estate Tax Return (federal Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A).	On or before the due date for filing federal Form 706, including extensions of time; provided extension is submitted to Hawaii within 30 days of issuance.
(3) General Excise (Gross Income) Chapter 237 — Sec. 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is 1/2 of 1% on wholesaling and intermediary services, blind vendors, producing, manufacturing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, sub-agents and solicitors who are taxed at .15%. Effective January 1, 1990, the licensing fee for general excise tax licensees and nonprofit organizations is a one-time fee of $20.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(4) Use Chapter 238 — Sec. 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: 1/2 of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see sections 238-3 and 238-4.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(5) Transient Accommodations Tax Chapter 237D — Sec. 237D-1 to 237D-17	This is a tax levied on the furnishing of a room, apartment, suite, or the like which is customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house, or other place in which lodgings are regularly furnished to transients for consideration. The tax is imposed at the rate of 5 percent. Effective January 1, 1990, the registration fee for transient accommodations operators is a one-time fee of $5 for each registration consisting of one to five units and $15 for six or more units.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed $2,000 for the calendar year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed $1,000 for the calendar year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the fourth month following the close of the taxable year.	At time of filing returns.
(6) Public Service Company Chapter 239 — Sec. 239-1 to 239-11	Nature of Tax — (1) Public utility business in lieu of general excise and real property taxes. (a) Measurement of assessment — general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see section 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, 1/2 of 1%. (iii) All other revenues. If ratio of net to gross income is 15% or less, 5.885%; for each 1% increase in ratio of net to gross, rate increase .2675%. (2) Motor carrier, common carrier by water and contract carrier business (other than motor carrier business) in lieu of general excise tax. (a) Measurement of assessment — general rule: Gross income from motor carrier, common carrier by water and contract carrier business for preceding calendar year. For exception, see sections 239-9 and 239-11. (b) Rate: 4% of gross income.	Returns filed on or before April 20th, based upon calendar year operations of preceding year.	First installment at time of filing return or, on or before April 20th. Other installments on 20th of June, September and December.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(7) Banks, Building and Loan, Financial Services Loan Companies and Certain Other Financial Corporations Chapter 241 — Sec. 241-1 to 241-7	(1) (a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax on banks, building and loan, financial services loan companies, financial corporations, small business investment companies, and development companies not subject to taxes imposed by chapters 235 and 237. (2) Measure of Assessment: Net income for the preceding year from all sources as defined by chapter 235 (Income Tax Law) with modifications. (3) Rate: 11.7% of taxable income.	Returns filed on or before April 20th, or the 20th day of the fourth month following the close of the fiscal year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter.
(8) Fuel Chapter 243 — Sec. 243-1 to 243-16	Distributors, as defined, are required to pay: 1¢ per gallon on aviation fuel; an initial 1¢ per gallon on diesel oil, liquefied petroleum gas for operation of an internal combustion engine and from 19.8¢ to 27.5¢ per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 19.8¢ to 27.5¢ per gallon on diesel oil and from 13¢ to 18¢ per gallon on liquefied petroleum gas used to operate motor vehicles upon the public highways; however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and liquefied petroleum gas used for motor vehicles not operated upon the public highways may be claimed on Form M-36. Distributors are required to register and be licensed. Licenses are valid until revoked.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D — Sec. 244D-1 to 244D-17	This is a gallonage tax imposed upon "dealers" as defined in the law and certain others who sell or use liquor. A $2.50 liquor tax permit is required and must be renewed before July 1st of each year. See sec. 244D-4 for exemption from tax. Act 344, SLH 1986, generally provides that the initially established tax rates are to be adjusted automatically on January 1, or July 1, as the case may be. Effective January 1, 1989, the tax rates per wine [illegible] $5.75 on distilled spirits, $2.00 on sparkling wine, $1.30 on still wine, $.81 on cooler beverages [illegible] on beer other than draft beer, and $.50 on draft beer. Act 149, SLH 1989, suspends the adjustment of liquor tax rates for the period beginning on June 7, 1989, and ending on June 30, 1991.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(10) Tobacco Chapter 245 — Sec. 245-1 to 245-15	"Wholesalers" as defined in the law and certain others must pay an excise tax on sale or use of tobacco products, equal to 40% of the wholesale price. A $2.50 tobacco tax license is required and must be renewed before July 1st of each year.	Returns filed on or before the last day of the following calendar month.	At time of filing returns.
(11) Conveyance Chapter 247 — Sec. 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 5¢ per $100.00 of the actual and full consideration paid or to be paid. Minimum $1.00 tax for each taxable transaction. (Documents of certain conveyances are exempted).	A certificate of conveyance must be filed with the document at the Bureau of Conveyances within 90 days after a taxable transaction, a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.
(12) Unemployment Insurance Chapter 383 — Sec. 383-1 to 383-176	This is a tax on wages paid, payable by employing units with one or more employees with certain exemptions. The unemployment insurance tax rate is the sum of an employer's basic contribution rate and the fund solvency contribution rate. The basic contribution rate will reflect the employer's own experience with unemployment and the fund solvency rate will reflect the trust fund's financial condition and experience of all covered employers. An employer's total contribution rate will not be less than 0% or greater than 5.4%.	Returns filed on or before the last day of the month following the taxable quarter.	At time of filing returns.
(13) Insurance Premiums Chapter 431 — Sec. 431:7-201 to 431:7-205	Tax on insurance companies (Underwriters) based on premiums received in Hawaii, in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance Domestic 1.918%; Foreign 3.197%; 4.68% on Surplus Lines; Ocean Marine .8775% on gross underwriting profit; on other Insurance Domestic 2.9647%; Foreign 4.28[illegible] This law is administered and the tax collected by the Insurance Commissioner who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.	Monthly or quarterly interim statements based on previous year's liability filed on or before the last day of the calendar month following the reporting period. Annual statement filed on or before March 15th with the Insurance Commissioner.	At time of filing statements.

DEPARTMENT OF TAXATION

TRAINING PROGRAMS FOR FISCAL YEAR

ENDING 6/30/90

Training Course	Number of Employees	Hours of Training
1. Advanced WordPerfect 5.0	1	3
2. Basic Factual Reporting	1	8
3. Bill Drafting	3	8
4. 1989 Clerical Seminar	48	384
5. Computers Need People	14	42
6. 5th Annual Computer Applications	3	78
7. Defensive Driving Course	5	40
8. Desktop Publishing With Ventura Publisher	3	27
9. EEC/AA For Federal Contractors	1	16
10. EEO For Managers & Supervisors	9	72
11. Effective Letter Writing	8	64
12. Effective Speech Writing	2	16
13. Ethics for State Employees	16	32
14. Basic Filing Rules	3	18
15. Cardio-Pulmonary Resuscitation	4	16
16. Multi-Media First Aid	3	24
17. 26th Annual Hawaii Tax Institute	10	400
18. Fall 1989 Income Tax Update	13	208
19. 8th National Institute on State & Local Taxation	1	16
20. CPE For Revenue Agents	2	64
21. 1989 FTA Tobacco Tax Section Annual Meeting	1	20
22. Intermediate DBase III Plus	3	18
23. Intermediate Lotus 1-2-3	3	18
24. Interpersonal Communication	4	16
25. Advanced Interviewing & Selection	1	8
26. Interviewing & Selection	14	168
27. Introduction to DBase III Plus	10	90
28. Introduction to Displaywrite IV	2	12
29. Introduction to IBM-PC	8	48
30. Introduction to DOS	7	21
31. Introduction to Lotus 1-2-3	9	54
32. Introduction to WordPerfect 5.0	3	18
33. Labor Relations Seminar	2	16
34. Turn of the Year III	16	256
35. Managing Your Diverse Work Force Effectively	2	32
36. DOTAX Manager's Communication Workshop	31	155
37. DOTAX 3rd Annual Management Conference	36	288
38. Management Development & Leadership Academy (MDLA)	5	570
39. MDLA Graduates Annual Meeting	4	32
40. How to Deal With Substance Abuse in the Workplace	1	7
41. How to Handle Difficult People	5	40
42. How to Spark Enthusiasm, Drive & Commitment In Your Employees	2	16
43. 44th Annual FTA Conference on Revenue Estimating & Tax Research	1	20
44. How To Be A Better Buyer	1	8
45. Women Who Lead	1	16

46. Bankruptcy Update	1	2
47. PTC's 12th Annual Conference	2	48
48. How to be a Better Proofreader	2	14
49. Stress Management	19	152
50. Stretch or Stress	7	28
51. DOTAX 2nd Supervisors Workshop	25	125
52. Supervisory Management Course II	1	20
53. Supervisory Management Course I	5	100
54. Time Management Seminar	9	36
55. Train-The-Trainer In Public Contact	5	40
56. Writing Skills Refresher	4	28
57. Intermediate DOS	1	6
58. Hard Disk Management	1	9
59. Public Contact	3	24
60. Performance Appraisal	6	48
61. FTA Workshop on Electronic Funds Transfer	1	11
62. SAS Basics I & II	1	40
63. Success Skills for Secretaries, Administrative Assistants and Support Staff	2	16
64. How to Get Things Done	1	7
65. Drug-Free Workplace (Non-Supervisors)	1	2
66. State of Hawaii Institute for Professional Secretaries	1	168
67. Budgeting & Forecasting Using Lotus 1-2-3	1	16
68. 22nd Annual Board of Review Conference	11	176
69. SAS Report Writing	1	16
70. 1990 Conference of Civil Service Commissioners and Personnel Directors	1	18
71. Leadership Intensive	3	60
72. Computer/VDT Safety Orientation	1	2
TOTAL	438	4695

NOTE: List does not include certain general interest training.

Featured in the photographs for this report is the Thi. ' Taxation District. Its main office is located in the State Office Building at 75 Aupuni Street in Hilo.

COUNCIL ON REVENUES

J. Ming Chew, Chairperson
David Ramsour, Vice Chairperson

Jeffrey Agader
Creighton Arita
Jensen Hee
Lowell Kalapa

BOARDS OF REVIEW

FIRST TAXATION DISTRICT (OAHU)

Roy K. Amemiya, Chairperson
Robert F. Maynard, Vice Chairperson

Craig Hirai
Isoo (Dick) Oshima
Theodore Talbott

SECOND TAXATION DISTRICT (MAUI)

Joseph A. Frye, Chairperson
George Y. Kondo, Vice Chairperson

Gerald N. Hiyakumoto
Filemon M. Nanod
Robert S. Ota

THIRD TAXATION DISTRICT (HAWAII)

Fred T. Yamashiro, Chairperson
Brian J. Ikawa, Vice Chairperson

Edwin T. Hara
Albert "Benny" Rodero
Timothy S. Young

FOURTH TAXATION DISTRICT (KAUAI)

Kazuo Senda, Chairperson
Harold Aiu, Vice Chairperson

Emilio "Spud" Olivas
Wesley Sahara
Wallace Tasaka

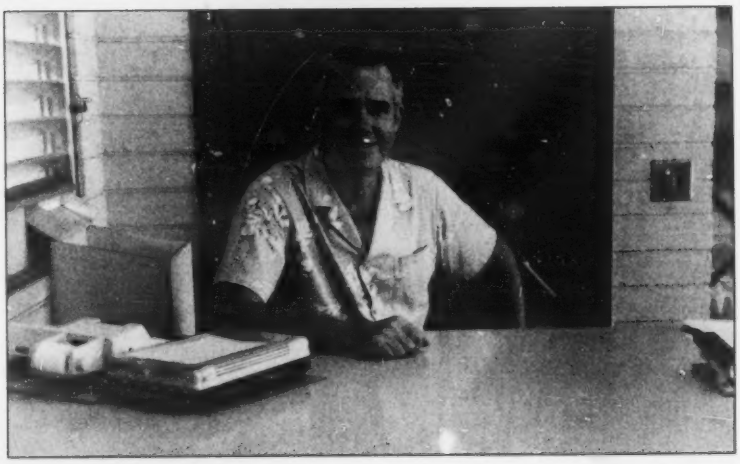
TAX REVIEW COMMISSION

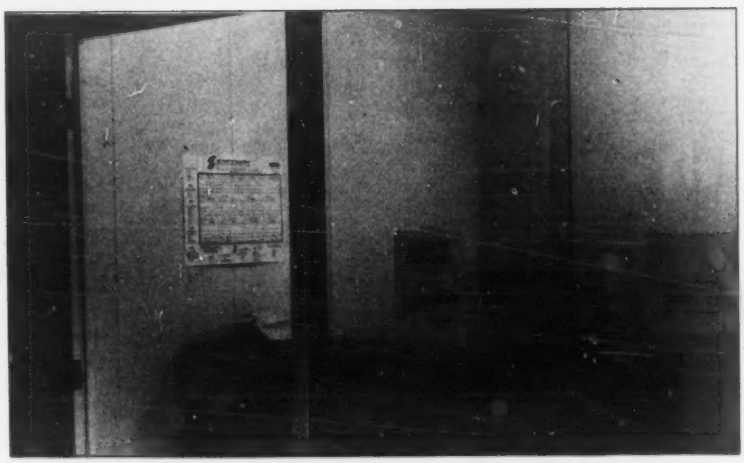
John R. Marks, Chairperson
Addie L. Lamberth, Vice Chairperson

Richard James Dahl
Mark N. Henry
Joan Lee Husted
Randall W. Roth
Alan M. L. Yee

Hawaii District Tax Collector Wendell Serrao and Hawaii District Tax Assessor Ronald Yabe.

The Third District's Kona Office is located in the State Office Building in Captain Cook and is staffed by Delinquent Tax Collection Assistant Stephan Miller.





The Third District's Honokaa office is serviced once or twice a month by staff from the Hilo Office.

Cathleen Tokishi, a Tax Information Specialist I in the Taxpayer Services Branch, was selected as the department's outstanding employee of the year.

Robert Koike, Tax Research and Planning Officer, was selected as the outstanding manager of the year.

Outstanding employees of the quarter (from left to right): Margaret Robideau, Receiving and Sorting—Fourth Quarter; Henry Tokunaga, Field Audit—First Quarter; Keith Fujio, Administrative Services—Second Quarter; Cathleen Tokishi, Taxpayer Services—Third Quarter.